Global Aerospace Underwriting Managers Limited

Report and Accounts for the year ended 31 December 2005

Registered Number 2512067

Contents

Page	2	Directors
	3	Directors' Report
	4	Statement of Directors' Responsibilities
	5-6	Auditors' Report
	7	Consolidated Balance Sheet
	8	Parent Company Balance Sheet
	9	Consolidated Income Statement
	10	Consolidated Statement of Changes in Shareholder Equity
	11	Parent Statement of Changes in Shareholder Equity
	12	Consolidated Cash Flow Statement
	13	Parent Cash Flow Statement
	14-48	Notes to the Accounts

Directors

H J Hesse

P J Bernhard

B Gentsch
(Appointed 1 March 2005)

F Krutter

M Lawler

A J Medniuk

D Lohmann
(Resigned 1 March 2005)

Head Office
Fitzwilliam House
10 St Mary Axe
London EC3A 8EQ

DIRECTORS' REPORT

Principal activity and review of the business
The Company is the holding company of a group of companies, the principal activity of which is the transaction, as agent, of aerospace insurance. During 2005 business was underwritten on behalf of a pool comprising:

National Indemnity Company
Converium AG
Münchener Rückversicherungs-Gesellshaft Aktiengesellschaft in München
The Tokio Marine & Nichido Fire Insurance Co. Ltd
Mitsui Sumitomo Insurance Co. Ltd

The group also provides management services to a number of aerospace insurance operations.

The overall financial position at the end of the year was satisfactory and directors expect this to continue.

Results and dividend
The profit of the Group on ordinary activities before taxation for the year ended 31 December 2005 amounted to £16,778,000 (2004: £13,210,000). The profit for the year after taxation for the group was £10,772,000 (2004: £8,344,000). A dividend of £8,200,000 was paid in the year (2004: £9,227,000); no final dividend is proposed.

Directors and their interests
The names of the current directors are shown on page 2.

None of the directors had any beneficial interest in the share capital of the group companies at either the beginning or the end of the year.

Policy and practice on payment of creditors
The Group's policy is to agree appropriate terms and conditions with its suppliers and to make payment in accordance with those terms and conditions, provided that the supplier has complied with them.

The Company's outstanding indebtedness to suppliers on 31 December 2005 amounted to £279,000 (2004: £45,000), corresponding to 20 days (2004: 3 days) payment when averaged over the year.

Charitable Donations
During 2005, the Group made charitable donations amounting to £5,000 (2004: £2,000).

Adoption of International Financial Reporting Standards
The Company adopted International Financial Reporting Standards on 1 January 2005.

Financial risks
The group's activities expose it to financial risks, mainly credit risk, currency risk and interest rate risk. Credit risk arises on deposits with financial institutions and is managed by restricting such deposits to highly rated institutions only. Currency risk arises as substantial amounts of the group's income and assets are US dollar denominated. These exposures are not hedged. Interest rate risk arises as the Company has loans from shareholders at a floating sterling interest rate.

Auditors
In accordance with Section 385 of the Companies Act 1985, a resolution to reappoint PricewaterhouseCoopers LLP as auditors to the Company will be put to the Annual General Meeting.

Approved and signed on behalf of the Board

D Littlefair
Secretary
23 March 2006

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE ACCOUNTS

Company law requires the directors to prepare accounts for each financial year which give a true and fair view of the state of affairs of the Company and Group and of the profit or loss of the Group for the year then ended. In preparing those accounts, the directors are required to:

- select suitable accounting policies and then apply them on a consistent basis with the exception of changes arising on the adoption of new accounting standards in the year, making judgements and estimates that are prudent and reasonable;
- confirm that applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on a going concern basis unless it is not appropriate to presume that the company will continue in business;

The directors confirm they have complied with the above requirements in preparing the financial statements.

The directors are responsible for keeping proper accounting records, for safeguarding the assets of the company (or group) and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

INDEPENDENT AUDITORS' REPORT

to the members of Global Aerospace Underwriting Managers Limited

We have audited the group and parent company financial statements (the ''financial statements'') of Global Aerospace Underwriting Managers Limited for the year ended 31 December 2005 which comprise the Consolidated Income Statement, the Consolidated and Parent Company Balance Sheets, the Consolidated and Parent Company Cash Flow Statements, the Consolidated and Parent Company Statement of Change in Shareholders' Equity and the related notes. These financial statements have been prepared under the accounting policies set out therein.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable law and International Financial Reporting Standards (IFRS) as adopted by the European Union are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). This report, including the opinion, has been prepared for and only for the company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the financial statements give a true and fair view and have been properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' Report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. The other information comprises only the Directors' Report. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the group's and company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion:

- the group financial statements give a true and fair view, in accordance with IFRS as adopted by the European Union, of the state of the group's affairs as at 31 December 2005 and of its profit and cash flows for the year then ended;
- the parent company financial statements give a true and fair view, in accordance with IFRS as adopted by the European Union as applied in accordance with the provisions of the Companies Act 1985, of the state of the parent company's affairs as at 31 December 2005 and cash flows for the year then ended; and
- the financial statements have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
London
23 March 2006

CONSOLIDATED BALANCE SHEET
as at 31 December 2005

	Note	**2005**	2004
		£'000	£'000
ASSETS			
Non-current assets			
Goodwill	4	**50,507**	45,164
Intangible assets	4	**593**	704
Property, plant and equipment	5	**997**	996
Deferred tax asset	7	**6,456**	6,129
Trade and other receivables	8	**10,626**	10,964
Other financial assets at fair value through profit or loss	9	**1,124**	960
		70,303	64,917
Current assets			
Deferred tax asset	7	**2,201**	756
Current tax asset		**358**	2,853
Trade and other receivables	8	**17,339**	16,752
Cash and cash equivalents	10	**29,635**	25,885
		49,533	46,246
Total Assets		**119,836**	111,163
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the parent			
Share capital	11	**25,000**	25,000
Cumulative translation reserve	12	**(11,272)**	(17,496)
Retained earnings brought forward		**9,153**	10,036
Profit for the year to date (after dividend)		**2,572**	(883)
Total Equity		**25,453**	16,657
Non-current liabilities			
Trade and other payables	13	**3,810**	3,208
Deferred tax liability	7	**1,745**	2,080
Retirement benefit obligations	14	**12,028**	12,878
Provisions and other liabilities	15	**62**	81
		17,645	18,247
Current liabilities			
Borrowings	16	**50,420**	50,497
Trade and other payables	13	**23,251**	24,789
Current tax liabilities		**3,067**	973
		76,738	76,259
Total liabilities		**94,383**	*94,506*
Total equity and liabilities		**119,836**	111,163

PARENT COMPANY BALANCE SHEET
as at 31 December 2005

	Note	2005 £'000	2004 £'000
ASSETS			
Non-current assets			
Property, plant and equipment	5	**287**	249
Investment in subsidiary	6	**91,297**	91,297
Deferred tax asset	7	**905**	55
Trade and other receivables	8	**3,616**	3,156
		96,105	94,757
Current assets			
Deferred tax asset	7	**185**	-
Trade and other receivables	8	**19,060**	13,114
Cash and cash equivalents	10	**7,557**	10,531
		26,802	23,645
Total Assets		**122,907**	118,402
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the parent			
Share capital	11	**25,000**	25,000
Retained earnings brought forward		**29,503**	30,581
Profit for the year to date (after dividend)		**2,077**	(1,078)
Total Equity		**56,580**	54,503
Non-current liabilities			
Trade and other payables	13	**794**	559
Retirement benefit obligations	14	**1,502**	3,177
Provisions and other liabilities	15	**62**	81
		2,358	3,817
Current liabilities			
Borrowings	16	**50,420**	50,497
Trade and other payables	13	**10,691**	8,694
Current tax liabilities		**2,858**	891
		63,969	60,082
Total liabilities		**66,327**	63,899
Total equity and liabilities		**122,907**	118,402

The accounts on pages 7 to 48 were approved by the Board on 23 March 2006 and signed on its behalf by

H J Hesse
Chairman

A J Medniuk
Managing Director

CONSOLIDATED INCOME STATEMENT
for the year ended 31 December 2005

	Note	**2005** **£'000**	2004 £'000
Revenue		**69,666**	61,902
Administrative expenses	17	**(50,733)**	(46,238)
Operating profit		**18,933**	15,664
Interest income	19	**1,201**	740
Interest expense	19	**(3,356)**	(3,194)
Profit before income tax		**16,778**	13,210
Taxes on income	20	**(6,006)**	(4,866)
Profit for the period		**10,772**	8,344

The results above are derived solely from continuing operations.

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDER EQUITY
for the year ended 31 December 2005

		Attributable to equity holders of the Company			Minority Interest	Total Equity
		Share *Capital*	Cumulative translation *adjustments*	Retained *earnings*		
	Note	£'000	£'000	£'000	£'000	£'000
Balance at 1 January 2004		25,000	(13,554)	10,036	19	21,501
Currency translation adjustments	12		(3,942)			(3,942)
Profit for the period				8,344		8,344
Sale of associated undertaking					(19)	(19)
Dividend paid				(9,227)		(9,227)
Balance at 31 December 2004		25,000	(17,496)	9,153	-	16,657
Balance at 1 January 2005		25,000	(17,496)	9,153	-	16,657
Currency translation adjustments	12		6,224			6,224
Profit for the period				10,772		10,772
Dividend paid				(8,200)		(8,200)
Balance at 31 December 2005		**25,000**	**(11,272)**	**11,725**	**-**	**25,453**

The above balances are stated net of tax.

PARENT COMPANY STATEMENT OF CHANGES IN SHAREHOLDER EQUITY
for the year ended 31 December 2005

	Share Capital £'000	Retained earnings £'000	Total Equity £'000
Balance at 1 January 2004	25,000	30,581	55,581
Profit for the period		8,149	8,149
Dividend paid		(9,227)	(9,227)
Balance at 31 December 2004	25,000	29,503	54,503
Balance at 1 January 2005	25,000	29,503	54,503
Profit for the period		10,277	10,277
Dividend paid		(8,200)	(8,200)
Balance at 31 December 2005	**25,000**	**31,580**	**56,580**

CONSOLIDATED CASH FLOW STATEMENT
for the year ended 31 December 2005

	Note	2005 £'000	2004 £'000
Cash flow from operating activities			
Cash generated from operations	23	**15,294**	15,195
Interest paid		**(3,390)**	(3,045)
Interest rolled up in investments		**(16)**	(16)
Income tax paid		**(2,669)**	(5,124)
Net cash used in operating activities		**9,219**	7,010
Cash flow from investing activities			
Purchase of additional shares in subsidiary		-	(19)
Purchases of property, plant and equipment (PPE)		**(358)**	(258)
Purchases of intangible assets		**(79)**	(282)
Proceeds from sale of investment in associate		-	33
Interest received		**1,154**	825
Net cash generated from investing activities		**717**	299
Cash flow from financing activities			
Dividends paid to Company's shareholders		**(8,200)**	(9,227)
Net cash used in financing activities		**(8,200)**	(9,227)
Net increase in cash and bank overdrafts		**1,736**	(1,918)
Cash and bank overdrafts at beginning of period		**25,807**	28,800
Exchange gains/(losses) on cash and bank overdrafts		**2,092**	(1,075)
Cash and bank overdrafts at end of the period		**29,635**	25,807

PARENT COMPANY CASH FLOW STATEMENT
for the year ended 31 December 2005

	Note	2005 £'000	2004 £'000
Cash flow from operating activities			
Cash generated from operations	23	**10,351**	5,854
Interest paid		**(3,390)**	(3,045)
Income tax paid		**(1,831)**	(1,135)
Net cash used in operating activities		**5,130**	1,674
Cash flow from investing activities			
Purchase of additional shares in subsidiary		**-**	(19)
Purchases of property, plant and equipment (PPE)		**(234)**	(174)
Proceeds from sale of investment in associate		**-**	33
Dividend received		**12**	3,967
Interest received		**394**	609
Net cash generated from investing activities		**172**	4,416
Cash flow from financing activities			
Dividends paid to Company's shareholders		**(8,200)**	(9,227)
Net cash used in financing activities		**(8,200)**	(9,227)
Net increase in cash and bank overdrafts		**(2,898)**	(3,137)
Cash and bank overdrafts at beginning of period		**10,455**	13,592
Cash and bank overdrafts at end of the period		**7,557**	10,455

1. ACCOUNTING POLICIES

Basis of preparation

The consolidated financial statements of Global Aerospace Underwriting Managers Limited have been prepared in accordance with Section 227 of, and Schedule 4A to, the Companies Act 1985 and International Financial Reporting Standards (IFRS). The accounts have been prepared under the historical cost convention.

Consolidation

The consolidated financial statements comprise the financial statements of Global Aerospace Underwriting Managers Limited and its subsidiaries as at 31 December each year. No profit and loss account is presented for Global Aerospace Underwriting Managers Limited, as provided by Section 230 of the Companies Act 1985. The profit after tax of the Company for the year is £10,276,000 (2004: £8,149,000).

Subsidiaries are defined as all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence of and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. The financial statements of subsidiaries are prepared for the same reporting year as the parent company. Adjustments are made to bring into line any dissimilar accounting policies that may exist.

The Group uses the purchase method of accounting to account for the acquisition of subsidiaries. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. The excess of cost of acquisition over the fair value of the identifiable net assets is recorded as goodwill. Intra-group transactions, balances and unrealised gains on intra-group transactions are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

Foreign currency

<u>Functional and presentation currency</u>
Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the 'functional currency'). The consolidated financial statements are presented in sterling, which is the parent company's functional and presentation currency.

<u>Foreign currency transactions</u>
Transactions in foreign currencies are translated into the functional currency at the exchange rate prevailing at the date of the transaction. Since most of the income in foreign currencies is earned over the year, the use of the average rate for the year is the most appropriate rate. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated into sterling at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of transaction.

Foreign exchange differences arising on retranslation are recognised directly in a separate component of equity.

<u>Financial statements of foreign operations</u>
The results and financial position of all group entities that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

1.) The assets and liabilities of foreign operations, including goodwill arising on consolidation, are translated to sterling at exchange rates ruling at the balance sheet date.
2.) The revenues and expenses of foreign operations are translated to sterling at rates approximating the exchange rates at the dates of the transactions.

1. ACCOUNTING POLICIES (continued)

Net investment in foreign operations
Exchange differences arising at year end from the translation of net investment in foreign operations are taken to the translation reserve.

Property, plant and equipment

All property, plant and equipment are shown at cost less subsequent depreciation.

Depreciation on assets is calculated using the straight – line method to allocate the cost of each asset to its residual value over its estimated useful life as follows:

Computer Equipment	2-3 years
Equipment	6 years
Aircraft and motor vehicles	4-5 years

Equipment includes furniture and fixtures and leasehold improvements.

Intangible assets

Acquired computer software licences are capitalised on the basis of costs incurred to acquire and bring to use the specific software. The costs are amortised on the basis of the expected useful life (2-3 years). Computer software development costs recognised as assets are amortised using the straight line method over their useful lives (2-3 years).

Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. It is tested annually for impairment and carried at cost less accumulated impairment losses. For the purposes of impairment testing, goodwill is allocated individual subsidiaries as these are regarded as being individual cash generating units.

Goodwill arising on acquisitions before the date of transition to IFRS has been retained at the previous UK GAAP amounts subject to being tested for impairment at that date.

Investments

Investments are held to back unfunded pension liabilities. The pension charge goes through the profit and loss account and therefore to avoid an accounting mismatch these investments have been designated as fair value through the profit or loss. Purchases and sales of investments are recognised on the date of trade.

Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within borrowings in the current liabilities on the balance sheet.

Borrowings

Borrowings are recognised initially at fair value. Borrowings are classified as current liabilities as the Group does not have an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

1. **ACCOUNTING POLICIES (continued)**

Deferred taxation

Deferred taxation is recognised on all taxable temporary differences using the liability method. In addition, a deferred tax asset is recognised to the extent that it is probable that taxable surplus will be available against which the deductible temporary difference can be utilised.

Deferred tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realised or the liability is settled.

Pension obligations

The Group operates defined benefit pension schemes and defined contribution savings plans. Separate schemes are offered to employees in the United Kingdom, United States of America, and Canada.
The liability recognised in the balance sheet in respect of defined benefit pension plans is the present value of the defined obligation at the balance sheet date less the fair value of plan assets. The defined benefit obligation is calculated by independent actuaries on a going concern basis at least every three years.

All actuarial gains and losses at 1 January 2004, the date of transition to IFRS, were recognised. The Group recognises any actuarial gains and losses that arise subsequent to 1 January 2004 in the income statement. Past service costs are recognised immediately in income unless the changes to the pension plan are conditional on the employees remaining in service for a specified period of time.
For defined contribution plans, amounts paid to the plan are recognised as an employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or reduction in the future payments is available.

Other post retirement benefits

In the United States of America post-retirement healthcare is provided to certain retirees. The entitlement to those benefits is conditional on the employee remaining in service up to retirement age and the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment using an accounting methodology similar to that for defined benefit pension plans. Actuarial gains and losses arising from experience adjustments are charged directly to the income statement.

Provisions

Provisions are recognised when the Group has a present obligation as a result of a past event, and it is probable that the Group will be required to settle that obligation. Provisions are measured at the directors' best estimate of the expenditure required to settle the obligation at the balance sheet date, and are discounted to present value where the effect is material.

Turnover

Management fee income
A management fee of 2% of gross written premium of the UK and US Global Aerospace pools is charged to the members of the 2001 and subsequent pools. Gross written premium is based upon reported gross written premium of the pool, net of broker commissions and other deductions. Once this has been established for a given year, no further adjustment is made.

Management charge income
Management charges to pool members, former pool members and other managed entities are made on the basis of expenses incurred after crediting interest so as to recover the costs of providing management services. The timing of the recognition of expense and associated management charge may not always coincide. To the extent that it does not coincide, the Group accrues or defers accounted income so as to match the accounted income to the expenses recognised in the accounting period.

1. ACCOUNTING POLICIES (continued)

Reinsurance commissions
Reinsurance commissions are credited to income based on estimated reinsurance premiums attributable to inwards insurance business of the pools incepting during the year, and include amounts arising from adjustments to estimates of previous years. This income is credited against the management charges made to managed entities.

Profit commission
Profit commission arising from an individual underwriting year is credited to the profit and loss account in the second year after the commencement of the underwriting year which is when the profit commission can be reliably estimated. In the third year an adjustment is made for the actual profit commission receivable when finally determined.

Leases

The Group occupies properties under operating leases. Rentals for occupied properties are charged to the profit and loss account as incurred over the lease term.

Leases where the lessor retains substantially all the risks and rewards of ownership are classified as operating leases. Payments made under operating leases (net of any incentives received form the lessor) are charged to the income statement on a straight line basis over the period of the lease.

Dividend distribution

Dividend distribution to the Company's shareholders is not recognised in the Group's financial statements until dividends are approved by the board and paid.

2. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Estimated impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment in accordance with the accounting policy stated in section 1 above. Goodwill is allocated to the Group's cash-generating units (CGUs) identified according to the country of operation.

The recoverable amount of a CGU is determined based on returns of the underwriting pool. These calculations use cash flow projections based on financial forecasts approved by management. These cash flows are discounted to net present value using a discount rate equalling the cost of capital.

3. TRANSITION TO IFRS

The Group's consolidated financial statements were prepared in accordance with UK Generally Accepted Accounting Principles (UK GAAP) until 31 December 2004. UK GAAP differs in some areas from IFRS. In preparing the 2005 consolidated financial statements, management has fully adopted IFRS. The comparative figures in respect of 2004 were restated to reflect these adjustments, except as described in the accounting policies.

Reconciliations and descriptions of the effect of the transition from UK GAAP to IFRS on the Group's equity and its net income are provided in the following sections of this note.

The Group's financial statements for the year ended 31 December 2005 will be the first annual statements that comply with IFRS. The Group has applied IFRS 1 in preparing these consolidated financial statements. The Group's transition date is 1 January 2004. The Group prepared its opening balance sheet at that date. The Group's IFRS adoption date is 1 January 2005.

In preparing these consolidated financial statements in accordance with IFRS 1, the Group has applied the mandatory exceptions and certain of the optional exemptions from full retrospective application of IFRS.

3. TRANSITION TO IFRS (continued)

The Group has considered the following optional exemptions from full retrospective application and decided to adopt them as appropriate.

Business combinations exemption
The Group has applied the business combinations exemption in IFRS 1. It has not restated business combinations that took place prior to the 1 January 2004 transition date.

Fair value as deemed cost exemption
The Group has elected not to measure items of property, plant and equipment at fair value as at 1 January 2004 and therefore has not restated the deemed cost at that date.

Employee benefit exemption
The Group has elected to recognise all cumulative actuarial gains and losses at 1 January 2004.

Cumulative translation differences exemption
The Group has elected not to set the previously accumulated translation differences to zero at 1 January 2004.

3.1 BACKGROUND ON EFFECTS TO THE FINANCIAL STATEMENTS UPON TRANSITION TO IFRS

The Group provides management services to a number of aerospace insurance pools. It is entitled to make a management charge to these pools equal to the expenses it incurs on their behalf. Where adjustments have been made to expenses in order to comply with IFRS the Group has recognised an equivalent increase to the income in order to maintain the break-even basis of charging. The difference between accounted income and the management charge to the pool members is accounted for as either deferred income or accrued income. This situation arises upon amendment to the accounting for pensions and post retirement benefits and capitalisation of previously expensed software which both involve adjustment to expenses.

The other adjustments made to the income statement all have a direct effect on the profit for the year and therefore cause a net change to the balance sheet. These items include reversal of goodwill amortisation, amendments to the profit commission and related deferred tax adjustments. The effect of each of these items is detailed in the notes below.

3.2 RECONCILIATION OF NET INCOME FOR THE YEAR ENDED 31 DECEMBER 2004

	Note	GAAP £'000	Effect of transition to IFRS £'000	IFRS £'000
Revenue	A	58,645	3,257	61,902
Administrative expenses	B	(43,938)	(2,300)	(46,238)
Goodwill amortisation	C	(7,011)	7,011	
		(50,949)	4,711	(46,238)
Operating profit		7,696	7,968	15,664
Interest income	D	740		740
Interest expense	D	(3,204)	10	(3194)
(Profit) before tax		5,232	7,978	13,210
Taxes on income	E	(4,044)	(822)	(4,866)
Profit for the period		1,188	7,156	8,344

3.3 RECONCILIATION OF CONSOLIDATED NET EQUITY AT 31 DECEMBER 2004

	Note	GAAP	Effect of Transition To IFRS	IFRS
ASSETS		£'000	£'000	£'000
Non-current assets				
Property, plant and equipment		996		996
Intangible assets	F	-	704	704
Goodwill	C	38,473	6,691	45,164
Other financial assets at fair value through profit or loss		960		960
Trade and other receivables	G	16,542	(5,578)	10,964
Deferred tax asset	H	4,036	2,093	6,129
		61,007	3,910	64,917
Current assets				
Trade and other receivables		9,228		9,228
Accrued income	I	4,198	3,326	7,524
Deferred tax asset		756		756
Current tax asset		2,853		2,853
Cash and cash equivalents		25,885		25,885
		42,920	3,326	46,246
Total Assets		103,927	7,236	111,163
EQUITY AND LIABILITIES				
Equity attributable to equity holders of the parent				
Share capital		25,000		25,000
Cumulative translation adjustment	J	(17,168)	(328)	(17,496)
Retained earnings	K	(213)	9,366	9,153
		7,619	9,038	16,657
Non-current liabilities				
Trade and other payables		3,208		3,208
Deferred tax liability	L	1,929	151	2,080
Retirement benefit obligations	M	7,158	5,720	12,878
Provisions and other liabilities		81		81
		12,376	5,871	18,247
Current liabilities				
Borrowings		50,497		50,497
Trade and other payables		24,092		24,092
Deferred income	N	8,370	(7,673)	697
Current tax liability		973		973
		83,932	(7,673)	76,259
Total liabilities		96,308	(1,802)	94,506
Total equity and liabilities		103,927	7,236	111,163

3.4 RECONCILIATION OF CONSOLIDATED NET EQUITY AT 1 JANUARY 2004

	Note	GAAP	Effect of Transition To IFRS	IFRS
ASSETS		£'000	£'000	£'000
Non-current assets				
Property, plant and equipment		1,071		1,071
Goodwill		48,439		48,439
Intangible assets	F	-	822	822
Investment in Associate		33		33
Available-for-sale investments		932		932
Trade and other receivables	G	11,167	(600)	10,567
Deferred tax asset	H	6,412	2,867	9,279
		68,054	3,089	71,143
Current assets				
Trade and other receivables		12,120		12,120
Accrued income	I	7,640	1,358	8,998
Deferred tax asset		1,094		1,094
Cash and cash equivalents		29,054		29,054
		49,908	1,358	51,266
Total Assets		117,962	4,447	122,409
EQUITY AND LIABILITIES				
Equity attributable to equity holders of the parent				
Share capital		25,000		25,000
Cumulative translation adjustment	J	(13,814)	260	(13,554)
Retained earnings	K	7,826	2,210	10,036
		19,012	2,470	21,482
Minority interest		19		19
Total Equity		19,031	2,470	21,501
Non-current liabilities				
Trade and other payables		3,561		3,561
Deferred tax liability		3,197		3,197
Retirement benefit obligations	M	1,608	10,483	12,091
Provisions and other liabilities		98		98
		8,464	10,483	18,947
Current liabilities				
Borrowings		50,674		50,674
Trade and other payables		30,465		30,465
Deferred income	N	9,328	(8,506)	822
		90,467	(8,506)	81,961
Total liabilities		98.931	1,977	100,908
Total equity and liabilities		117,962	4,447	122,409

3.5 RECONCILIATION OF PARENT COMPANY NET EQUITY AT 31 DECEMBER 2004

	Note	GAAP	Effect of Transition To IFRS	IFRS
ASSETS		£'000	£'000	£'000
Non-current assets				
Property, plant and equipment		249		249
Investment in Subsidiary		91,297		91,297
Trade and other receivables	G	3,005	151	3,156
Deferred tax asset	H	101	(46)	55
		94,652	105	94,757
Current assets				
Trade and other receivables		6,474		6,474
Accrued income	I	3,463	3,177	6,640
Cash and cash equivalents		10,531		10,531
		20,468	3,177	23,645
Total Assets		115,120	3,282	118,402
EQUITY AND LIABILITIES				
Equity attributable to equity holders of the parent				
Share capital		25,000		25,000
Retained earnings	K	29,398	105	29,503
Total Equity		54,398	105	54,503
Non-current liabilities				
Trade and other payables		559		559
Retirement benefit obligations	M	-	3,177	3,177
Provisions and other liabilities		81		81
		640	3,177	3,817
Current liabilities				
Borrowings		50,497		50,497
Trade and other payables		8,694		8,694
Current tax liabilities		891		891
		60,082		60,082
Total liabilities		60,722	3,177	63,899
Total equity and liabilities		115,120	3,282	118,402

3.6 RECONCILIATION OF PARENT COMPANY NET EQUITY AT 1 JANUARY 2004

	Note	GAAP	Effect of Transition To IFRS	IFRS
ASSETS		£'000	£'000	£'000
Non-current assets				
Property, plant and equipment		290		290
Investment in Subsidiary		91,279		91,279
Investment in Associate		33		33
Trade and other receivables	G	3,193	142	3,335
Deferred tax asset	H	93	(43)	50
		94,888	99	94,987
Current assets				
Trade and other receivables		4,167		4,167
Accrued income	I	5,380	1,155	6,535
Cash and cash equivalents		13,845		13,845
		23,392	1,155	24,547
Total Assets		118,280	1,254	119,534
EQUITY AND LIABILITIES				
Equity attributable to equity holders of the parent				
Share capital		25,000		25,000
Retained earnings	K	30,482	99	30,581
Total Equity		55,482	99	55,581
Non-current liabilities				
Trade and other payables		480		480
Retirement benefit obligations	M	-	1,155	1,155
Provisions and other liabilities		98		98
		578	1,155	1,733
Current liabilities				
Borrowings		50,674		50,674
Trade and other payables		11,546		11,546
		62,220		62,220
Total liabilities		62,798	1,155	63,953
Total equity and liabilities		118,280	1,254	119,534

3.7 EXPLANATION OF THE EFFECT OF THE TRANSITION TO IFRS (CONTINUED)

		£'000
A	*Revenue*	
	Increase in management charge arising from increase in expenses attributable to pool members (see B below and note 3.1 above)	1,117
	Increase in profit commission recognised (see note i) below)	899
	Effect of using average rate to translate income of foreign subsidiaries (see note ii) below)	1,234
	Other changes	7
	Total impact – increase in revenue	3,257

i) Increase due to change in recognition of profit commission. The income from the most recent pool year (2004) is derecognised as the underlying policies are still on risk with the consequence that profit commission cannot be determined reliably. However this is offset by an increase in income relating to the preceding pool year (2003) owing to a change in the basis of calculation.

ii) This increase is due to changing the rate of exchange used to translate the income of foreign subsidiaries. Under UK GAAP the year end rate was used to translate the income statement of the subsidiaries. The transition to IFRS has required the Group to use the average rate of exchange for translation purposes resulting in amendments to various components of the income statement (see other points below).

		£'000
B	*Administrative expenses*	
	Recognition of UK pension liability (see note i) below)	(2,021)
	Credit for pension expenses previously recognised but now included in opening balances (see note ii) below)	1,028
	Recognition of software depreciation (see note iii) below)	(360)
	Capitalisation of software previously expensed (see note iv) below)	237
	Expenses attributable to pool members	(1,116)
	Effect of using average rate to translate income of foreign subsidiaries (see Aii) above)	(1,184)
	Total impact – increase in administrative expenses	(2,300)

i) The UK pension liability was not recognised on the balance sheet under UK GAAP. The transition to IFRS has resulted in recognition of the full pension liability on the balance sheet. The increase shown above reflects the movement of the liability during the year.

ii) Unamortized costs relating to the US and Canadian pension plans were included in the value of the pension liability/asset under UK GAAP. Under IFRS these amounts have now been recognised in the income statement. This has resulted in a net increase in administrative expenses.

iii) Software and costs of software development previously expensed have been recognised as an asset since the cost of the item can be measured reliably and it is probable that the future economic benefits will flow to the Group over the years in which it will be in use. This has resulted in recognition of the depreciation charge for the year.

iv) Software additions were expensed under UK GAAP. Software is now capitalised in the balance sheet and has therefore been removed from the income statement.

		£'000
C	*Goodwill amortisation*	
	Write back of 2004 amortisation charge	7,011
	Total impact on income statement – decrease in goodwill amortisation	7,011
	Reversal of 2004 Exchange difference on amortisation charge	(320)
	Total impact on balance sheet – decrease in goodwill amortisation	6,691

Under IFRS, goodwill is no longer amortised on an annual basis but is now subject to an impairment review. The rules under IFRS 1 allow the Group to adopt the date of transition (1 January 2004) as the starting point of the impairment review. This has resulted in a reversal of the 2004 amortisation charge.

3.7 EXPLANATION OF THE EFFECT OF THE TRANSITION TO IFRS (CONTINUED)

		£'000
D	*Finance costs – net*	
	Effect of using average rate to translate finance costs of foreign subsidiaries (see Aii) above)	10
	Total impact – decrease in finance costs	10
E	*Tax on profit on ordinary activities*	
	Deferred tax adjustment due to profit commission amendment (see note i) below)	(370)
	Effect of using average rate to translate tax of foreign subsidiaries (See Aii) above)	(93)
	Release of deferred tax benefit related to non-compete agreement (see note ii) below)	(359)
	Total impact – increase in tax	(822)

i) The increase in profit commission has led to an increase in the deferred tax charge associated with this income.

ii) A non-compete agreement was entered into upon acquisition of the US subsidiary. The actual tax benefits are spread over 15 years. The non-compete agreement was previously treated as a component of goodwill which was amortized over a ten year period. This element has been separately identified under IFRS and fully amortized by 31 December 2003 (the expiry date of the agreement). A deferred tax asset has been recognised accordingly.

		Group £'000	Company £'000
F	*Intangible assets*		
	At 1 January 2004:		
	Recognition of software previously treated as an expense (see Biii) and Biv) above)	822	-
	Year ended 31 December 2004:		
	Recognition of software previously treated as an expense (see Biii) and Biv) above)	(118)	-
	Total impact – increase in intangible assets	704	-
G	*Trade and other receivables*		
	At 1 January 2004:		
	Adjustment to Canadian pension asset (see Bii) above)	(203)	-
	(Decrease)/increase in profit commission recognised (see Ai) above)	(397)	142
		(600)	142
	Year ended 31 December 2004:		
	Adjustment to Canada pension asset (see Bii) above)	53	-
	Increase in profit commission recognised (see Ai) above)	795	9
	Reallocation of prepaid element of US pension (see note i) below)	(5,826)	-
		(4,978)	9
	Total impact – decrease in trade and other receivables	(5,578)	151

i) The balance on the US benefit plan is now a liability due to recognition of unamortized costs under IFRS. This adjustment has been made to transfer related balances to the pension liability for disclosure purposes.

3.7 EXPLANATION OF THE EFFECT OF THE TRANSITION TO IFRS (CONTINUED)

		Group £'000	Company £'000
H	*Deferred tax asset*		
	At 1 January 2004:		
	Deferred tax adjustment due to profit commission amendment (see Ei) above)	174	(43)
	Recognition of deferred tax benefit related to non compete agreement (see Eii) above)	2,693	-
		2,867	(43)
	Year ended 31 December 2004:		
	Deferred tax adjustment due to profit commission amendment (see Ei) above)	(220)	(3)
	Release of deferred tax benefit related to non compete agreement (see Eii) above)	(554)	-
		(774)	(3)
	Total impact – decrease in deferred tax asset	2,093	(46)
I	*Accrued income*		
	At 1 January 2004:		
	Recognition of UK pension liability (see Bi) above and note 3.1 above)	1,155	1,155
	Adjustment to Canada pension liability (see Bii) above and note 3.1 above)	203	-
		1,358	1,155
	Year ended 31 December 2004:		
	Recognition of UK pension liability (see Bi) above and note 3.1 above)	2,022	2,022
	Adjustment to Canada pension liability (see Bii) above and note 3.1 above)	(54)	-
		1,968	2,022
	Total impact – increase in accrued income	3,326	3,177
J	*Cumulative translation adjustment*		
	At 1 January 2004:		
	Effect of using average rate to translate the net income of foreign subsidiaries (see note ii) below)	260	-
	Year ended 31 December 2004:		
	Reversal of 2004 exchange difference on amortisation charge (see note i) below)	(320)	-
	Effect of using average rate to translate the net income of foreign subsidiaries (see note ii) below)	(268)	-
		(588)	-
	Total impact – decrease in exchange reserve upon consolidation	(328)	-

i) The exchange difference arose due to using an average rate to translate amortisation for the income statement and the year end rate for the purposes of the balance sheet. Upon reversal of the amortisation charge the exchange difference is also removed.

ii) This amount has arisen due to changing the rate of exchange used to translate foreign subsidiaries. Under UK GAAP the year end rate was used to translate the income statement of the subsidiaries. The transition to IFRS has required the Group to use the average rate of exchange with the resultant difference recognised in the cumulative translation adjustment.

3.7 EXPLANATION OF THE EFFECT OF THE TRANSITION TO IFRS (CONTINUED)

		Group £'000	Company £'000
K	*Profit and loss account*		
	At 1 January 2004:		
	(Decrease)/increase in profit commission recognised (see Ai) above)	(397)	142
	Deferred tax adjustment due to profit commission amendment (see Ei) above)	174	(43)
	Recognition of deferred tax benefit related to non compete agreement (see Eii) above)	2,693	-
	Exchange difference (see Jii) above)	(260)	-
		2,210	99
	Year ended 31 December 2004:		
	Increase in profit commission recognised (see Ai) above)	899	9
	Deferred tax adjustment due to profit commission amendment (see Ei) above)	(370)	(3)
	Write back of 2004 amortisation charge (see C above)	7,011	-
	Exchange difference (see Jii) above)	(32)	-
	Release of deferred tax benefit related to non compete agreement (see Eii) above)	(359)	-
	Other changes	7	-
		7,156	6
	Total impact – increase in profit and loss account	9,366	105
L	*Deferred tax liability*		
	Year ended 31 December 2004:		
	Deferred tax adjustment due to profit commission amendment (See Ei) above)	151	-
	Total impact – increase in deferred tax liability	151	-
M	*Retirement benefit obligations*		
	At 1 January 2004:		
	Recognition of UK pension liability (see Bi) above)	1,155	1,155
	Adjustment to US pension liability (see Bii) above)	9,328	-
		10,483	1,155
	Year ended 31 December 2004:		
	Recognition of UK pension liability (see Bi) above)	2,022	2,022
	Adjustment to US pension liability (see Bii) above)	(959)	-
	Reallocation of prepaid element of US pension (see Gi) above)	(5,826)	-
		(4,763)	2,022
	Total impact – increase in retirement benefit obligations	5,720	3,177
N	*Deferred income*		
	At 1 January 2004:		
	Adjustment to US pension liability (see Bii) above)	(9,328)	-
	Recognition of software previously treated as an expense (see Biii) and Biv) above)	822	-
		(8,506)	-
	Year ended 31 December 2004:		
	Adjustment to US pension liability (see Bii) above)	958	-
	Recognition of software previously treated as an expense (see Biii) and Biv) above)	(118)	-
	Other changes	(7)	-
		833	-
	Total impact – decrease in deferred income	(7,673)	-

4. INTANGIBLE ASSETS

	Goodwill	Software
	£'000	£'000
At 1 January 2005		
Cost or valuation	67,063	2,463
Accumulated amortisation and impairment	(21,899)	(1,759)
Net book amount	45,164	704
Twelve months ended 31 December 2005		
Opening net amount at 1 January 2005	45,164	704
Exchange differences	5,343	86
Additions	-	88
Amortisation charge	-	(285)
Net book amount	**50,507**	**593**
At 31 December 2005		
Cost or valuation	73,341	2,738
Accumulated amortisation and impairment	(22,834)	(2,145)
Net book amount	**50,507**	**593**

5. PROPERTY, PLANT AND EQUIPMENT

A) Group

	Computer Equipment £'000	Equipment £'000	Aircraft & Motor Vehicles £'000	Total £'000
At 1 January 2005				
Cost or valuation	3,694	4,479	543	8,716
Accumulated depreciation	(3,425)	(3,783)	(512)	(7,720)
Net book amount	269	696	31	996
Twelve months ended 31 December 2005				
Opening net amount at 1 January 2005	269	696	31	996
Exchange differences	6	82	3	91
Additions	212	119	40	371
Depreciation charge	(209)	(231)	(21)	(461)
Closing net book value at 31 December 2005	278	666	53	997
At 31 December 2005				
Cost or valuation	3,662	4,772	607	9,041
Accumulated depreciation and exchange	(3,384)	(4,106)	(554)	(8,044)
Net book amount	**278**	**666**	**53**	**997**

B) Company

	Computer Equipment £'000	Equipment £'000	Aircraft & Motor Vehicles £'000	Total £'000
At 1 January 2005				
Cost or valuation	2,113	1,285	43	3,441
Accumulated depreciation	(1,905)	(1,257)	(30)	(3,192)
Net book amount	208	28	13	249
Twelve months ended 31 December 2005				
Opening net amount at 1 January 2005	208	28	13	249
Additions	194	40	-	234
Depreciation charge	(171)	(14)	(11)	(196)
Closing net book value at 31 December 2005	231	54	2	287
At 31 December 2005				
Cost or valuation	2,308	1,325	43	3,676
Accumulated depreciation	(2,077)	(1,271)	(41)	(3,389)
Net book amount	**231**	**54**	**2**	**287**

6. INVESTMENT IN SUBSIDIARY

	2005 £'000	2004 £'000
At 1 January	**91,297**	91,279
Purchase of additional shares in subsidiary	-	18
At 31 December	**91,297**	91,297

7. DEFERRED TAX

	Group		Company	
	2005 £'000	2004 £'000	**2005 £'000**	2004 £'000
Deferred tax assets:				
Deferred tax asset to be recovered after more than 12 months	**6,456**	6,129	**905**	55
Deferred tax asset to be recovered within 12 months	**2,201**	756	**185**	-
	8,657	6,885	**1,090**	55
Deferred tax liabilities				
Deferred tax liability to be recovered after more than 12 months	**1,745**	2,080	-	-
	6,912	4,805	**1,090**	55

The gross movement on the deferred income tax account is as follows:

	Group 2005 £'000	Group 2004 £'000	Company 2005 £'000	Company 2004 £'000
At beginning of the year	**4,805**	7,176	**55**	50
Exchange differences	**708**	(443)	-	-
Income statement charge/(credit)	**1,399**	(1,900)	**1,035**	5
Transfer from current tax	-	(28)	-	-
	6,912	4,805	**1,090**	55

7. DEFERRED TAX (continued)

The deferred tax balance is analysed below.
All items are charged through the income statement.

	Group		Company	
	2005	2004	**2005**	2004
	£'000	£'000	**£'000**	£'000
Fixed asset decelerated capital allowances	**343**	254	**100**	55
Employee benefit liabilities	**5,396**	3,718	**990**	-
Non-compete agreement	**2,650**	2,613	-	-
Restructuring charges	**122**	138	-	-
Other timing differences	**146**	162	-	-
Total gross deferred tax asset	**8,657**	6,885	**1,090**	55
Fixed asset accelerated capital allowance	**38**	-	-	-
Reimbursed expenses	**1,051**	1,107	-	-
Other timing differences	**656**	973	-	-
Total gross deferred tax liability	**1,745**	2,080	-	-
Deferred tax asset / (liability)	**6,912**	4,805	**1,090**	55

8. TRADE AND OTHER RECEIVABLES

	Group		Company	
	2005	2004	**2005**	2004
	£'000	£'000	**£'000**	£'000
NON-CURRENT				
Other receivables	**5,228**	5,609		
Prepayments and accrued income	**5,398**	5,355	**3,616**	3,156
	10,626	10,964	**3,616**	3,156
CURRENT				
Amounts owed by subsidiaries	-	-	**4,565**	104
Trade receivables	**6,315**	8,148	**7,754**	5,533
Other receivables	**447**	375	**247**	221
Prepayments	**761**	705	**623**	616
Accrued income	**9,816**	7,524	**5,871**	6,640
	17,339	16,752	**19,060**	13,114

9. OTHER FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2005 £'000	2004 £'000
Value at 1 January	**960**	932
Interest accrued	**16**	15
Appreciation in value	**32**	76
Exchange differences	**116**	(63)
Value at 31 December	**1,124**	960

Other financial assets at fair value through the profit and loss include the following:

	2005	2004
Investment in Mutual fund	**1,124**	*960*

10. CASH AND CASH EQUIVALENTS

	Group		Company	
	2005 £'000	2004 £'000	2005 £'000	2004 £'000
Cash at bank and in hand	**7,838**	7,899	**1,392**	7,162
Short-term bank deposits	**21,797**	17,986	**6,165**	3,369
	29,635	25,885	**7,557**	10,531

Cash and bank overdrafts include the following for the purposes of the cash flow statement:

	2005 £'000	2004 £'000
Cash and cash equivalents	**29,635**	25,885
Bank overdrafts	**-**	(77)
	29,635	25,808

11. SHARE CAPITAL

	2005 £'000	2004 £'000
Authorised ordinary equity shares of £1 each		
Ordinary shares	**25,000**	25,000
Allotted, called up and fully paid		
Ordinary shares of £1 each	**25,000**	25,000

12. CUMULATIVE TRANSLATION ADJUSTMENT

	2005 £'000	2004 £'000
At 1 January	**(17,496)**	(13,554)
Exchange adjustments	**6,224**	(3,942)
At 31 December	**(11,272)**	(17,496)

13. TRADE AND OTHER PAYABLES

	Group		Company	
	2005 £'000	2004 £'000	**2005 £'000**	2004 £'000
NON-CURRENT				
Accruals and deferred income	**3,810**	3,208	**794**	559
	3,810	3,208	**794**	559
CURRENT				
Other payables	**7,769**	14,103	**688**	1,279
Accruals	**15,482**	9,989	**10,003**	7,415
Deferred income	**-**	697	**-**	-
	23,251	24,789	**10,691**	8,694

14. POST RETIREMENT BENEFITS

The Group has established a number of pension schemes for its employees. Overseas schemes are administered in accordance with local laws and practice. The principal schemes are the ones established in the UK and US, which together cover more than 90% of the employees in the Group.

The UK scheme provides defined benefit type pension benefits to employees who joined the Company prior to 1 January 2002 and defined contribution type pension benefits for employees who joined on or after 1 January 2002.

In the US there is a funded scheme of the defined benefit type with assets held in a separate trustee administered fund, a further defined benefit scheme (the US supplemental pension plan) for which the company holds assets but not within a trust fund, and a defined contribution savings plan. During 2004, most US employees ceased to accrue further service under the defined benefit plan and are accruing benefits solely under the defined contribution savings plan. The remaining employees can continue to accrue further service in the defined benefit plan until 31 July 2014.

In Canada, two smaller schemes are operated: a defined benefit plan and a defined contribution plan which was introduced with effect from 1 January 2003. Employees joining the company on or after 1 May 2002 are eligible for membership of the defined contribution plan, while employees who were members of the defined benefit plan were able to elect to remain in that scheme or transfer their membership to the new scheme.

The US supplemental pension plan does not hold assets in a separately administered trust fund.

The Group provides defined benefit post-retirement benefits to employees in the US. The plan provides medical, dental and life insurance benefits. The cost and liability is accrued and recognised over the period of relevant employee service. This plan closed to new members with effect from 31 December 2002.
The principal assumptions used in determining pension and post-employment benefit obligations for the Group's plans are shown below:

	2005		2004	
	UK	**US**	UK	US
Inflation	**2.9%**	**3.0%**	2.9%	3.0%
Salary increase	**3.9%**	**4.5%**	3.9%	4.5%
Pension payment increase	**2.9%**	**0%**	2.9%	0%
Discount rate	**4.7%**	**5.6%**	5.2%	5.75%

Medical/dental inflation 8% in 2005 trending down to 5.5% in 2008 and thereafter.

14. POST RETIREMENT BENEFITS (continued)

The following tables summarise the components of net benefit expense recognised in the consolidated income statement and the funded status and amounts recognised in the consolidated balance sheet for the respective plans.

A) Group

Balance sheet obligations for:	**2005**	2004
	£'000	£'000
Pension benefits	**(4,693)**	(6,091)
Post-employment medical benefits	**(7,220)**	(6,651)
Net benefit liability	**(11,913)**	(12,742)
Analysed as:		
Benefit asset - Canadian plan	**115**	136
Benefit liability - other plans	**(12,028)**	(12,878)
	(11,913)	(12,742)

Assets are held in respect of the net benefit liability as follows:

Investments at fair value through profit and loss	**1,124**	960
Cash	**8,175**	7,210
Due from pool members	**2,614**	4,572
Total	**11,913**	12,742

	2005	2004
	£'000	£'000
Income statement charge for:		
Pension benefits	**(3,459)**	(5,155)
Post-employment medical benefits	**(195)**	(262)
	(3,654)	(5,417)

B) Company

Balance sheet obligations for:	**2005**	2004
	£'000	£'000
Pension benefits	**(1,502)**	(3,177)
Net benefit liability		
Analysed as:		
Benefit liability	**(1,502)**	(3,177)

Assets are held in respect of the net benefit liability as follows:		
Cash	**1,502**	3,177
Total	**1,502**	3,177
Income statement charge for:		
Pension benefits	**(1,762)**	(3,455)

14. POST RETIREMENT BENEFITS (continued)

14.1 Pension benefits

A) Group

	2005 £'000	2004 £'000
Present value of funded obligations	**(68,157)**	(57,703)
Present value of unfunded obligations	**(1,303)**	(1,070)
Total market value of assets	**64,767**	52,682
Net benefit liability	**(4,693)**	(6,091)

Assets are held in respect of the net benefit liability as follows:

	2005 £'000	2004 £'000
Investments at fair value through profit and loss	**1,124**	960
Cash	**3,569**	3,311
Due from pool members	**-**	1,820
Total	**4,693**	6,091

The amounts recognised in the income statement are as follows:

	2005 £'000	2004 £'000
Current service cost	**(1,712)**	(1,817)
Expected return on pension scheme assets	**3,242**	3,002
Interest on pension scheme liabilities	**(3,271)**	(3,015)
Actuarial loss	**(1,718)**	(3,325)
Net benefit expense	**(3,459)**	(5,155)
Actual return on plan assets	**5,597**	3,815

Movements in the net benefit liability during the years ended 31 December 2004 and 2005 are as follows:

	2005 £'000	2004 £'000
At 1 January	**(6,091)**	(4,889)
Exchange adjustment	**(339)**	225
Benefit expense	**(3,459)**	(5,155)
Gross contributions	**5,196**	3,728
At 31 December	**(4,693)**	(6,091)

B) Company

	2005 £'000	2004 £'000
Present value of funded obligations	**(37,918)**	(32,198)
Present value of unfunded obligations	**-**	-
Total market value of assets	**36,416**	29,021
Net benefit liability	**(1,502)**	(3,177)

Assets are held in respect of the net benefit liability as follows:

	2005 £'000	2004 £'000
Cash	**1,502**	3,177
Total	**1,502**	3,177

14. POST RETIREMENT BENEFITS (continued)

The amounts recognised in the income statement are as follows:

	2005 £'000	2004 £'000
Current service cost	**(1,143)**	(1,123)
Expected return on pension scheme assets	**1,664**	1,608
Interest on pension scheme liabilities	**(1,692)**	(1,410)
Actuarial loss	**(591)**	(2,530)
Net benefit expense	**(1,762)**	(3,455)
Actual return on plan assets	**4,428**	2,849

Movements in the net benefit liability during the years ended 31 December 2004 and 2005 are as follows:

	2005 £'000	2004 £'000
At 1 January	**(3,177)**	(1,155)
Exchange adjustment	**-**	-
Benefit expense	**(1,762)**	(3,455)
Gross contributions	**3,437**	1,433
At 31 December	**(1,502)**	(3,177)

14.1a Analysis of movement in present value of funded obligations

	2005 £'000	2004 £'000
Present value of funded obligation at 1 January	**(57,703)**	(51,660)
Movements:		
Current service cost	**(1,704)**	(1,809)
Interest cost	**(3,204)**	(2,951)
Actuarial gains and losses	**(3,974)**	(4,647)
Foreign exchange differences	**(3,149)**	2,097
Benefits paid	**1,577**	1,267
Present value of funded obligation at 31 December	**(68,157)**	(57,703)

14.1b Analysis of movement in present value of unfunded obligations

	2005	2004
Present value of unfunded obligation at 1 January	**(1,071)**	(1,073)
Movements:		
Current service cost	**(8)**	(7)
Interest cost	**(67)**	(64)
Actuarial gains and losses	**(99)**	(92)
Foreign exchange differences	**(132)**	92
Benefits paid	**74**	74
Present value of funded obligation at 31 December	**(1,303)**	(1,070)

14. POST RETIREMENT BENEFITS (continued)

14.1c Analysis of movement of assets – funded

	2005 £'000	2004 £'000
Fair value of assets at 1 January	**52,682**	47,781
Movements:		
Expected return on plan assets	**3,243**	3,002
Actuarial gains and losses	**2,354**	1,415
Foreign exchange differences	**2,942**	(1,891)
Contributions by the employer	**5,123**	3,642
Benefits paid	**(1,577)**	(1,267)
Fair value of assets at 31 December	**64,767**	52,682
Assets by country:		
UK	**36,416**	29,021
US	**26,893**	22,486
Canada	**1,458**	1,175
	64,767	52,682

14.1d Asset percentages by country

	2005		2004	
UK	%	£'000	%	£'000
Equities	**40.0%**	**14,566**	40.3%	11,687
Bonds	**58.0%**	**21,122**	56.4%	16,370
Cash	**0.0%**	**-**	1.3%	363
Excess insured pensions	**2.0%**	**728**	2.0%	601
		36,416		29,021
US				
Equities	**41.8%**	**11,233**	41.2%	9,267
Bonds	**42.5%**	**11,430**	28.7%	6,451
Cash	**15.7%**	**4,230**	30.1%	6,771
Excess insured pensions	**0.0%**	**-**	0.0%	-
		26,893		22,489
Canada				
Equities	**46.9%**	**684**	41.5%	488
Bonds	**46.4%**	**676**	50.0%	587
Cash	**6.7%**	**98**	8.5%	100
Excess insured pensions	**0.0%**	**-**	0.0%	-
		1,458		1,175

14. POST RETIREMENT BENEFITS (continued)

14.1e Returns expected on asset classes by country

UK	***2005***	*2004*
Equities	**7.0%**	7.0%
Bonds	**4.3%**	5.0%
Cash	**n/a**	4.0%
Excess insured pensions	**4.3%**	5.0%

US		
Equities	**8.0%**	8.0%
Bonds	**4.5%**	4.5%
Cash	**1.0%**	1.0%
Excess insured pensions	**0.0%**	0.0%

Canada		
Equities	**6% on**	6% on
Bonds	**assets in**	assets in
Cash	**total**	total
Excess insured pensions		

14.1f Analysis of movement of assets - unfunded

	2005 **£'000**	2004 £'000
Fair value of assets at 1 January	**-**	-
Contributions by the employer	**74**	74
Benefits paid	**(74)**	(74)
Fair value of assets at 31 December	**-**	-

14.1g Best estimate of next years contributions to be paid into the plan

	2005 **£'000**	2004 £'000
Estimated contributions to be paid to funded plans for next year	**2,220**	5,108
Estimated contributions to be paid to unfunded plans for next year	**74**	74

14. POST RETIREMENT BENEFITS (continued)

14.1h(i) Current period and previous three year period analysis of funded schemes

	2005 £'000	2004 £'000	2003 £'000	2002 £'000
Present value of defined benefit obligation at 31 December	**(68,157)**	(57,703)	(51,284)	(48,949)
Asset value at 31 December	**64,767**	52,682	47,451	38,943
Surplus/deficit in plan	**(3,390)**	(5,021)	(3,833)	(10,006)
Liability experience adjustment	**(245)**	(2,083)	(1,517)	(7,581)
Assets experience adjustment	**2,712**	516	2,366	(4,568)

14.1h(ii) Current period and previous three year period analysis of unfunded schemes

	2005 £'000	2004 £'000	2003 £'000	2002 £'000
Present value of defined benefit obligation at 31 December	**(1,303)**	(1,071)	(1,056)	(2,152)
Asset value at 31 December	-	-	-	-
Surplus/deficit in plan	**(1,303)**	(1,071)	(1,056)	(2,152)
Liability experience adjustment	**(99)**	(92)	968	(665)

14.2 Post-employment medical benefits

	2005 £'000	2004 £'000
Present value of unfunded obligations	**(7,220)**	(6,651)
Net benefit liability	**(7,220)**	(6,651)

Assets are held in respect of the net benefit liability as follows:

	2005 £'000	2004 £'000
Cash	**4,606**	3,899
Due from pool members	**2,614**	2,752
Total	**7,220**	6,651

	2005 £'000	2004 £'000
Current service cost	**(228)**	(285)
Gains on curtailments	-	1,286
Interest on pension scheme liabilities	**(354)**	(432)
Actuarial gain/(loss)	**387**	(831)
Net benefit expense	**(195)**	(262)

14. POST RETIREMENT BENEFITS (continued)

Movements in the net benefit liability during the years ended 31 December 2004 and 2005 are as follows:

	2005	2004
	£'000	£'000
At 1 January	**(6,651)**	(7,246)
Exchange adjustment	**(774)**	596
Benefit expense	**(195)**	(262)
Gross contributions	**400**	261
At 31 December	**(7,220)**	(6,651)

14.2a Analysis of movement in present value of unfunded obligations

	2005	2004
	£'000	£'000
Present value of unfunded obligation at 1 January	**(6,651)**	(7,246)
Movements		
Current service cost	**(228)**	(285)
Interest cost	**(354)**	(432)
Actuarial gains and losses	**387**	(831)
Foreign exchange differences	**(774)**	596
Benefits paid	**400**	261
Curtailments	**-**	1,286
Present value of funded obligation at 31 December	**(7,220)**	(6,651)

14.2b Effect of changing medical cost trend rates

The effect of increasing the medical cost trend rate by 1% would increase the current service cost and interest cost by £2,000 (2004: nil) and the accumulated present value of obligation by £10,000 (2004: £1,000)

The effect of decreasing the medical cost trend rate by 1% would decrease the current service cost and interest cost by £7,000 (2004: nil) and the accumulated present value of obligation by £44,000 (2004: £1,000)

14.2c Current period and previous three year period analysis

	2005	2004	2003	2002
	£'000	£'000	£'000	£'000
Present value of defined benefit obligation at 31 December	**(7,220)**	(6,651)	(7,132)	(8,305)
Asset value at 31 December	**-**	-	-	-
Surplus/deficit in plan	**(7,220)**	(6,651)	(7,132)	(8,305)
Liability experience adjustment	**387**	(831)	874	(2,033)

15. PROVISIONS AND OTHER LIABILITIES

	2005 £'000	2004 £'000
Group and company		
At 1 January	**81**	98
Utilisation in the year	**(22)**	(22)
Unwind of discount	**3**	5
At 31 December	**62**	81

The provision relates to a rental lease for the 8th floor of Portsoken House which expires on 24 December 2008. This floor has been vacated by the company and sublet with the provision representing the shortfall between the rent payable and rent receivable.

16. BORROWINGS

	2005 £'000	2004 £'000
Group and company		
CURRENT		
Bank overdraft	**-**	77
Loan from shareholders	**50,420**	50,420
	50,420	50,497

The loan from shareholders is repayable on nine months written notice from the shareholders. Interest is charged on the loan at 2% above UK base rate. The carrying amount of borrowings approximates their fair value.

17. EXPENSES BY NATURE

	2005 £'000	2004 £'000
Depreciation, amortisation and impairment charges	**713**	813
Employee benefit expense (see note 18)	**34,786**	31,004
Fees paid to PricewaterhouseCoopers LLP:		
Audit of Group accounts - Parent company	**79**	42
- Subsidiary companies	**99**	94
Other services including non statutory audits	**276**	163
Operating lease rentals	**2,657**	2,753
Other expenses	**12,123**	11,369
	50,733	46,238
Classified as:		
Administrative expenses	**50,733**	46,238

18.1 EMPLOYEE BENEFIT EXPENSES

	2005 £'000	2004 £'000
Wages and salaries	**28,581**	23,323
Social security costs	**2,364**	2,088
Pension costs - defined contribution plans	**187**	176
Pension costs - defined benefit plans (see note 14)	**3,459**	5,155
Other post employment benefits (see note 14)	**195**	262
	34,786	31,004

18.2 EMPLOYEE NUMBERS

	2005	2004
Average number of employees:		
UK	**132**	126
Canada	**27**	23
US	**226**	229
	385	378

19. INTEREST

		2005 £'000	2004 £'000
19.1	Interest income: other interest	**1,201**	740
19.2	Interest expense: shareholder loan interest	**(3,356)**	(3,194)

20. INCOME TAX EXPENSE

	2005 £'000	2004 £'000
Current tax	**7,405**	2,966
Deferred tax (see note 7)	**(1,399)**	1,900
	6,006	4,866

The tax on the Group's profit before tax differs from the theoretical amount that would arise using the weighted average tax rate applicable to profits of the consolidated companies as follows:

	2005 £'000	2004 £'000
Profit before tax	**16,778**	13,210
Tax calculated at domestic tax rates applicable to profits in the respective countries	**5,783**	4,640
Expenses not deductible for tax purposes	**73**	58
Adjustments to tax charge in respect of prior periods	**(49)**	(43)
Withholding tax on remittance of dividends to UK	**199**	211
	6,006	4,866

The weighted average applicable tax rate was 34.5% (2004: 35.1%). The increase is caused by a change in the profitability of the Group's subsidiaries in the respective countries.

21. NET FOREIGN EXCHANGE GAINS/(LOSSES)

The exchange differences credited/(charged) to the income statement are included as follows:

	2005 £'000	2004 £'000
Revenue	**(1,490)**	(439)
Administrative expenses	**(49)**	(16)
	(1,539)	(455)

22. DIVIDENDS PER SHARE

The dividends paid in 2005 and 2004 were £8,200,000 (33 pence per share) and £9,227,000 (37 pence per share) respectively.

23a. CASH GENERATED FROM OPERATIONS – GROUP

	2005 £'000	2004 £'000
Profit before taxation	**16,778**	13,210
Adjustments for:		
Depreciation	**713**	813
Interest income	**(1,201)**	(740)
Interest expense	**3,356**	3,195
Unrealised gain on investments	**-**	(76)
Changes in working capital		
Trade and other receivables	**(2,022)**	(6,229)
Trade and other payables	**(2,312)**	5,040
Provisions	**(18)**	(18)
Cash generated from operations	**15,294**	15,195

23b. CASH GENERATED FROM OPERATIONS – COMPANY

	2005 £'000	2004 £'000
Profit before taxation	**13,239**	10,010
Adjustments for:		
Depreciation		
Dividends receivable	**(3,972)**	(4,178)
Interest income	**(394)**	(509)
Interest expense	**3,352**	3,195
Unrealised gain on investments		
Changes in working capital		
Trade and other receivables	**(5,103)**	(5,317)
Trade and other payables	**3,051**	2,455
Provisions		
Cash generated from operations	**10,351**	5,854

24. COMMITMENTS

There were no capital commitments as at 31 December 2005 (2004: nil).

The Group leases various offices under operating lease agreements. The leases have various terms, escalation clauses and renewal rights.

The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	Group		Company	
	2005	2004	**2005**	2004
	£'000	£'000	**£'000**	£'000
Within one year	**3,013**	2,864	**1,336**	1,336
Within two to five years	**6,427**	7,382	**677**	2,013
After five years	**701**	1,391	**-**	-
	10,141	11,637	**2,013**	3,349

25. PRINCIPAL SUBSIDIARIES AND ASSOCIATED UNDERTAKINGS

The Company owns the entire share capital of Global Aerospace Underwriting Managers (USA) Inc. registered in Delaware, USA and the US Company owns the entire share capital of Global Aerospace, Inc (formerly Associated Aviation Underwriters Inc.) registered in Delaware, USA, which is the management company for the Group in the US.

The Company owns the entire share capital of Global Aerospace Underwriting Managers (Canada) Limited (formerly British Aviation Insurance Group (Canada) Limited) (incorporated in Canada), which is the management company for the Group in Canada. The Company owns the entire share capital of British Aviation Insurance Group (Canada) Limited (formerly Global Aerospace Underwriting Managers (Canada) Limited) incorporated in Canada. This company has not traded.

At the balance sheet date the Company owned 100% of the share capital of British Aviation Insurance Group Underwriting Services Limited, registered in England. British Aviation Insurance Group Underwriting Services Limited formerly administered, as agent, aviation insurance business on behalf of Tokio Marine and Fire Insurance, Mitsui Sumitomo Insurance Company, Munich Re and Zurich Group but transferred the business to the Company on 1 July 2004.

The Company owns the entire share capital of British Aviation Insurance Group (Technical Services) Limited, BAIG Limited, Global Aerospace Underwriters Limited and Global Limited (formerly Global (BAIG) Limited). All of these companies are registered in England and were dormant throughout the year.

During 2004, the Company sold its one third holding of the issued ordinary share capital of Ortac Underwriting Agency Limited for net book value. It also purchased 37.5% of the capital of British Aviation Insurance Group Underwriting Services Limited for cash and now holds the entire shareholding of that company.

All subsidiaries are included in the consolidated financial statements.

26. RELATED PARTY TRANSACTIONS

Northern States Agency Inc (NSA) held 45% of the Company's share capital, Converium AG 30.1% and Munich Re 24.9%.

The pool member National Indemnity Company is under common ownership with Northern States Agency, Inc.

Management fees, of 2% of gross written premium for the pool, profit commission, and management charges were charged to these parties as follows:

	Management fees		Profit commission		Management charges	
	2005 £'000	2004 £'000	**2005 £'000**	2004 £'000	**2005 £'000**	2004 £'000
National Indemnity	**2,702**	2,823	**2,383**	1,365	**11,012**	8,212
Converium AG	**2,475**	2,586	**2,261**	1,365	**10,217**	7,677
Munich Re	**2,475**	2,585	**2,261**	1,422	**10,427**	8,825

At year end the following balances were due to and from these parties:

	Amounts owed to related party		Amounts owed by related party		Shareholder loan	
	2005 £'000	2004 £'000	**2005 £'000**	2004 £'000	**2005 £'000**	2004 £'000
National Indemnity	**15**	2,008	**4,340**	1,143	**22,689**	22,689
Converium AG	**479**	1,816	**5,483**	1,191	**15,176**	15,176
Munich Re	**758**	3,416	**4,063**	2,075	**12,555**	12,555

Key management compensation

	2005 £'000	2004 £'000
Salary and other benefits	**2,045**	1,857
Annual bonus based on pool trading profit	**5,293**	2,134
Compensation for termination of contractual bonus scheme based on Company profits	**-**	534
Contractual bonus	**105**	-
Total	**7,443**	4,525

26. RELATED PARTY TRANSACTIONS (continued)

Directors' Remuneration

	2005		2004	
	Highest Paid Director £'000	**Total Emoluments £'000**	Highest Paid Director £'000	Total Emoluments £'000
Salary and other benefits	**317**	**631**	310	614
Annual bonus based on pool trading profit	**2,468**	**3,703**	860	1,291
Compensation for termination of contractual bonus scheme based on Company profits	-	-	285	499
Total	**2,785**	**4,334**	1,455	2,404

Retirement benefits are accruing to one director under a defined contribution scheme and one director under a defined benefit scheme. Company contributions treated as being made to the defined contribution scheme were £25,000 (2004: £25,000). The highest paid director is not a member of the defined benefit pension scheme.

At 31 December 2005, under a scheme available to all UK staff, Mr A J Medniuk had an interest free season ticket loan outstanding of £4,216. The loan at 31 December 2004 was £4,136 and the maximum amount outstanding during the year was £4,600.